OYO: GREATEST STORY OF COMEBACK

OYO was founded by Ritesh Agarwal in 2012. Initially, it was launched under the name Oravel Stays. At that stage, it functioned as a budget accommodation listing platform, where it listed available stays based on different price ranges and connected customers with hotels.

The idea emerged from a major gap in the budget-hotel segment: lack of reliability and standardisation. Many hotels showcased spacious and luxurious rooms online, but in reality, the rooms were often poorly maintained, messy, and unhygienic. At the same time, some properties that *were* well-maintained struggled to reach customers due to low visibility.

This is where Oravel Stays created value; it aimed to solve the core flaw in the market by introducing better standardisation and trust in budget stays. Under this model, the platform earned revenue by charging a commission on hotel bookings.

OYO has evolved significantly over the years and has adopted four major business models throughout its journey:

1. Oravel Stays (Commission-Based Model):

The initial model where OYO operated as a budget accommodation listing platform and earned revenue through commissions on bookings.

A major flaw in this system was price instability and lack of transparency. Customers often faced inconsistent pricing and unclear charges, which created dissatisfaction and reduced trust in the platform. As a result, OYO experienced low customer ratings and weak customer retention during this phase.

Overall, it was a low investment, low control business model, where OYO had limited influence over hotel operations and service quality.

2. OYO Rooms (Standardization Model):

After starting as **Oravel Stays**, the company rebranded as **OYO Rooms** and adopted a **standardisation-led model**. Instead of only listing hotels, OYO partnered with **budget hotels** and focused on delivering a consistent customer experience under the OYO brand. This included defining service standards, monitoring property quality, and using technology to improve operations.

A major turning point in Ritesh Agarwal's entrepreneurial journey came when he was selected for the **Thiel Fellowship**, a program founded by Peter Thiel that supported young founders with seed capital and mentorship.
This helped OYO accelerate its growth mindset early on.

2016: Breakout Scale & Rapid Growth

By early 2016, OYO claimed very strong momentum:

- **68,300+ rooms** across **5,855 partner hotels** in **170 Indian cities**
- **2.3 million booked room-night transactions in Q1 (Jan–Mar 2016)**

Quality Control System: "Cross Scoring"

To ensure standardisation, OYO introduced a **cross-scoring audit mechanism**, where service failures were penalized using "crosses." Examples:

- **Room shifting** was penalized with **4 crosses**
- Lower-quality service failures (like hygiene-related issues) carried lower but significant penalty scores

If a hotel accumulated **20+ crosses**, OYO could **delist the property** from its platform. This system helped improve control over quality and was an important part of OYO's standardisation strategy.

Competitive Position (By 2016):

Hotel chains	Number of hotels
Oyo	6500
Treeboo	125
Fab hotels	225

Financial Reality Behind the Growth (Losses & Cash Burn)

While OYO scaled quickly, it also began burning cash heavily.

Losses

- **FY15 Loss:** ₹21 Cr
- **FY16 Loss:** ₹496 Cr

Expenses

- Expenses rose sharply to **~₹520 Cr in FY16**, compared to a much smaller base earlier.

A major reason was increased competition during India's online travel boom. By this period, companies like: makemytrip, goibibo, booking.com, fabhotels and treebo were scaling fast and backed by large funding — which triggered price wars, discounts, and partner poaching.

To defend market share and retain customers, OYO used **heavy discounting**, often subsidising bookings. For example:

If a room price was **₹1000**, OYO might list it at **₹900**, absorbing the remaining **₹100 loss** as a subsidy.
This approach helped in customer retention, but also contributed significantly to cash burn.

3. Managed by OYO (Minimum Guarantee Model):

To prevent strong-performing hotels from shifting to competing platforms and to lock in premium inventory, OYO introduced the "Managed by OYO" model, also widely referred to as the Minimum Guarantee / Minimum Business Guarantee (MGB) model.

Under this model, OYO took greater operational responsibility for partner properties by managing:pricing and demand-based rates, inventory allocation, marketing and sales distribution, service standards and customer experience. In return, hotel owners received a fixed minimum guaranteed monthly revenue, regardless of seasonal fluctuations.

Ex: shanti palace, on peak season earns 4 lacs revenue and off season earns 1 lacs revenue. In this case, oyo offers a deal of minimum guarantee contract **₹3 lacs** in return oyo will handle pricing, inventory management and marketing.

This offer was made to high revenue hotels to avoid poaching.

Financial Trend During Expansion

Even though OYO grew rapidly, it experienced heavy losses across years:
2015: 21cr
2016: 496 cr
2017: 325 cr
2018: 360 cr
2019: 2385 cr

Reasons:

A. Hotel owners had lower accountability

   Since revenue was guaranteed, many properties had **less pressure to maintain service quality**, which affected customer satisfaction.

B. Leakage through direct bookings
   A common issue was **booking diversion**. For ex: if 2 lacs was minimum guarantee then hotels used to take 1.8 lacs worth bookings from oyo and tell the rest 20k worth customers to directly book hotel.This allowed owners to earn **extra income**, while OYO still paid the guarantee amount.

C. Over optimistic assumptions during expansion

   OYO scaled aggressively under the expectation that newly added properties would perform strongly.
   However, many hotels **did not meet expected occupancy levels**, which increased losses since OYO still had to honor the guarantee payments.

During COVID-19, the hospitality industry collapsed, and OYO began:

- suspending / terminating minimum guarantee agreements
- offering hotels revised contracts (often moving them toward revenue-sharing structures)

This shift resulted in strong backlash among hotel partners.

OYO went through major restructuring during early 2020:

- restructured **15–20%** of its workforce
- reportedly exited operations in **~200 cities**

Financially, OYO's revenue **declined sharply**:

- **FY20:** ~$1.8B
- **FY21:** ~$850M

4. Franchise Model:

As OYO matured, it increasingly moved toward a franchise-based, asset-light partnership model. Under this structure, property owners operate hotels under the OYO brand, follow defined service standards, and use OYO's technology stack — while OYO supports the property with:

- branding and quality guidelines
- distribution and online visibility
- technology tools for operations
- pricing and revenue optimisation
- marketing and demand generation

Revenue in this model is typically earned through a commission / revenue-sharing structure, where OYO takes a portion of room revenue for enabling brand + demand + tech support.

Benefits of this model:

- AI driven pricing and revenue management

  Oyo decides dynamic rates based on occupancy levels, season patterns, demand surges and local competition.This improves hotel revenue and helps OYO increase booking conversion.

- Wide online visibility to increase bookings

  OYO's strongest value to franchise partners is its ability to generate demand through online distribution channels and brand recall.

- Costsaving

  The model also benefits partners through operational and procurement efficiencies (e.g., better bulk procurement deals, process standardisation).

International Expansion & Revenue Split

OYO's business increasingly became **international heavy**.
A key FY25 insight reported in business analysis is that **India contributed only ~20% of revenue**, while **~80% came from international markets** (including the US, Europe, and Southeast Asia).

A defining moment in OYO's franchise expansion was the acquisition of **G6 Hospitality** (parent company of **Motel 6 and Studio 6**) for **$525 million**.

This acquisition added approximately **1,500 franchised hotels across the US and Canada**, significantly expanding OYO's North American presence.

OYO expanded its India footprint through its "company-serviced" hotel business:

- spread across **124 cities** in India
- rapid addition of **700 company-serviced hotels** in a year (since Sept 2023 launch)

Financial performance (profit and loss)

2020: -13122 cr
2021: -3943 cr
2022: -1941 cr
2023: -1286 cr
2024: 229 cr
2025: 245 cr

Keys lessons

1) Growth without control is a tickling time bomb.
2) Revenue is not equal to profit
3) Customer experience is a weapon for your business